



## 2012 Proposed Legislation

The 2012 Hawaii State Legislature opened on January 18, 2012 and will run through May 3, 2012. The Employees' Retirement System (ERS) has introduced 3 bills to be heard and discussed during this session. Below are summaries of the bills that have been introduced in both the House and the Senate. For more information on this and other legislation, you may visit the State Capitol website at [www.capitol.hawaii.gov](http://www.capitol.hawaii.gov).

**HB 2487 and SB 2749** – Amendments to sections related to the new benefit structure effective July 1, 2012 (Act 163):

- *Restores parity between judges and other contributory members with respect to age and service requirements for retirement*
- *Corrects the benefit multiplier for ordinary disability retirement to be consistent with the benefit multiplier for service retirement*
- *Amends the minimum service requirements for the Hybrid Plan hypothetical contribution account balance for ordinary death benefits*

**HB 2488 and SB 2750** – Addresses the unexpected increases in retirement benefits for some members of the ERS and in the unfunded liability of the system by limiting the amount of compensation included in the "average final compensation" of new and current members and requiring employers of current members to pay the costs attributable to additional benefits resulting from "pension spiking."

Public employers and ERS members provide contributions that fund a member's retirement benefits over the member's anticipated employment period, so that there will be sufficient monies to pay the member's retirement benefit. For the career government employee, this could entail a span of 25 or 30 years of service. If an employee's pay suddenly increases substantially in the final years of employment, the employee's retirement benefit (which is based on the employee's three or five highest paid years) can be increased dramatically without the years of contributions required to fund the increase. This, in turn, increases the unfunded actuarial accrued liability (difference between the value of benefits earned for services already performed and the assets to pay for these benefits) of the ERS, which is currently at \$8.2 billion.

In order to alleviate the negative impact of this practice, this legislation proposes the following changes:

- *For employees who become ERS members after June 30, 2012: Limits the amount of compensation that can be included in the calculation of the member's retirement benefits if the member's non-base pay (such as overtime or bonuses) during the member's "high-five" years exceeds limits based on the average of the member's non-base pay during the last 10 years of the member's service.*
- *For existing members: Limits the amount of compensation that can be included in the calculation of the member's retirement benefits if the member's non-base pay during the member's "high-three" or "high-five" years exceeds limits as noted above; however, this calculation would only be applied to periods after June 30, 2015.*
- *For existing members: Requires the member's last employer to pay the additional costs resulting from sudden increases in the member's non-base pay during the member's final years of employment.*

**HB 2489 and SB 2751** – Includes the requirement that one member of the ERS Board of Trustees shall have investment experience.

Results of these proposals shall be covered in our June 2012 *Holomua*. Until then, you may follow these bills online at the State Capitol website noted above, or by following our Administrator, Wes Machida, on Twitter at <http://twitter.com/ERSHawaii> or by accessing the ERS website at <http://ers.ehawaii.gov>.

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### Chief Investment Officer

Rodney L. June

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## Wes' Corner



Aloha,  
Wes Machida

We are well into the 2012 Legislative Session and hopefully the outcome will be beneficial towards improving our funding situation. As of June 30, 2011, the ERS' unfunded liability was \$8.164 billion. The ERS Board of Trustees continues to be diligent in their efforts in addressing this large unfunded liability.

Three administrative bills are working their way through the legislative process. Updates on these and other bills are included in this newsletter, and will be posted to our Twitter account as legislative decisions are made.

As part of our strategic plans to improve customer service, we are working on improving our website. It will have a new look and feel, be better organized, easier to navigate, and provide more information such as postings to our Twitter account. The plan is to have the new website launched in March or April of 2012.

Our plans for the remainder of 2012 are to find more ways to get you information to help you make good retirement decisions. We hope to hear from you, so that we can continue to improve our services.

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## Report from Rod June, Chief Investment Officer

It's the beginning of a new year: Time to tighten the belt and get your personal investment portfolio in shape! As an institutional investor, I do not advise individual ERS members on their personal investment portfolios. However, I provide a general approach to portfolio construction and monitoring – the same process we use at ERS - as one way to help achieve your personal investment goals.

**Determine your objectives** Return requirements, risk tolerance, and liquidity needs are key objectives to consider in portfolio construction. Your personal situation will largely drive the importance of each of the three factors. Generally speaking, more importance is placed on higher degrees of liquidity and less risk the closer you are to retirement; more importance is placed on capital gains and higher risk tolerance the farther you are from retirement. Most investment strategies available to the average investor offer daily liquidity. Your personal situation and own analysis will determine where you fit along this continuum.

**Diversify!** Research shows that the greatest success in long-term investing comes from thoughtful investment diversification. Creating an asset allocation plan is essential, which is simply employing several distinct investment strategies (e.g., U.S. large cap stocks, international stocks, U.S. corporate bonds, etc.) into various percentage weights based on expected return and risk characteristics. The optimal portfolio is one that maximizes performance return, minimizes risk volatility, and addresses your liquidity needs. Determining the proper weights requires some homework or a discussion with your trusted financial advisor.

**Discipline, Discipline, Discipline** The next step is simple: stick to the plan. Because investment valuations change over time, you should rebalance the asset allocation plan to maintain the portfolio near the predetermined asset weightings by shifting assets from strategies that are above the targets to strategies that are below the targets to bring the actual weightings back in line with the original target weightings. Many investors establish the percentage ranges around the original targets that, when exceeded, signal a rebalance. A disciplined investor has the highest probability of achieving long-term investment goals.

I will discuss the distinct investment strategies and sample policy target weightings in a future edition of the *Holomua*.

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## Congratulations to Board Member, Emmitt Kane

The ERS is pleased to announce that Emmitt Kane was elected to the Board of Trustees on January 11, 2012. Mr. Kane's term will run through January 1, 2018.

Mr. Kane is a Deputy Fire Chief with the Honolulu Fire Department and has more than a decade of supervisory, management, and long-range planning experience. He was an East-West Center Degree Fellow and holds a Master of Business Administration degree from the University of Hawaii. In addition, he has served on the Executive Board of the Hawaii Fire Fighters Association.

In January 2010, Mr. Kane was appointed to the ERS Board of Trustees to complete the term of a retiring trustee. During the past 2 years he has chaired the board's Audit committee and has been a member of the board's Administrative committee. At its February board meeting, Mr. Kane was voted Vice Chair of the ERS Board of Trustees. The ERS Board and membership may look forward to many beneficial and productive years under Mr. Kane's trusteeship.

# Working to fulfill your retirement dreams . . .

The Employees' Retirement System Board of Trustees has approved a 2011 – 2015 Strategic Plan for the ERS:

Our Mission is to work together to provide a responsive, competent, and cost-effective retirement program that elicits pride, confidence and trust.

We follow the Spirit of Aloha as:

- A** “Akahai” meaning kindness, to be expressed with tenderness. We will be kind and caring to all that we meet.
- L** “Lokahi” meaning unity, to be expressed with harmony. We are one team going in a positive direction.
- O** “Olu’olu” meaning agreeable, to be expressed with humility. We will work towards a common goal and be sensitive to the needs of others.
- H** “Ha’aha’a” meaning humility, to be expressed with modesty. We will be humble and considerate of others.
- A** “Ahonui” meaning patience, to be expressed with perseverance. We are motivated to always do what’s right and never be deterred from achieving this goal.

And our vision is to be the best organization in meeting the retirement needs of our members by achieving two of our primary goals:

- *Improving the ERS funded ratio with the long-term goal of achieving a 100% funded ratio*
- *Providing excellent service to members, retirees, beneficiaries, and employers*

Please view our complete Strategic Plan on our website at: <http://ers.ehawaii.gov> by clicking on the “Resources” tab and clicking on “Publications” tab.

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## On the Neighbor Islands

Alan Nakamoto, our longtime ERS Maui District Liaison, retired on December 31, 2011 with 35 years and 2 months of dedicated State service. He started our Maui office in 1990, servicing all the Maui active members, retirees/beneficiaries, as well as the State and County personnel and payroll staff. In addition, Alan was also responsible for our membership on the islands of Molokai and Lanai. Alan made significant contributions to the organization with his “can do” attitude. He helped a lot of members and made many friends during his employment with the ERS and will be missed by everyone as he is now a “retiree” himself.

Our Maui office remains in good hands. Paul George, Maui District Liaison, has been with the ERS since 2006 and will continue to service our Maui, Molokai, and Lanai members.

Our other neighbor island representatives also continue their dedicated service on their respective islands: Rhoda Miyashiro and Dayle Ishii from our Hawaii District Office and Sheri Kunioka-Volz and Paula Alquiza from our Kauai District Office. They provide counseling services and also assist the State and County personnel and payroll staffs.

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## Here's the ERS pension payment dates through December 2012.

| Semi-monthly Only | All    |
|-------------------|--------|
| Mar 15            | Mar 30 |
| Apr 13            | Apr 30 |
| May 15            | May 31 |
| Jun 15            | Jun 29 |
| Jul 13            | Jul 31 |
| Aug 15            | Aug 31 |
| Sep 14            | Sep 28 |
| Oct 15            | Oct 31 |
| Nov 15            | Nov 30 |
| Dec 14            | Dec 31 |

## Hawai'i Employer-Union Health Benefits Trust Fund (EUTF). News from the EUTF about the new Prescription Drug Plan.

The EUTF is a separate organization from ERS. If you have any questions about information in this article, please **DO NOT** contact ERS. Please contact the EUTF directly at 586-7390 or toll-free at 1-800-295-0089, or email EUTF at [eutf@hawaii.gov](mailto:eutf@hawaii.gov).

As many of you have heard, the EUTF is changing its pharmacy benefit manager from informedRx (HMSA/Medco for HSTA VB BU 05/45 retirees) to CVS Caremark for active employees and **Non-Medicare Retirees**.

For **Medicare Retirees** due to a 2nd protest filed by informedRx on January 27, 2012, EUTF will be required to continue with informedRx (HMSA/Medco for HSTA VB BU 05/45) as the pharmacy benefit manager until the new protest is resolved. Much more information will be posted on EUTF's website at: [www.eutf.hawaii.gov](http://www.eutf.hawaii.gov). Be sure to check our website periodically.

Here are the basic points you need to know now:

| Non-Medicare Retirees                                                           |                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Frequently Asked Questions (FAQs)                                               | Answers                                                                                                                                                                                                                                                                                                                                                                                                       |
| When does the change take place?                                                | <b>May 1, 2012</b>                                                                                                                                                                                                                                                                                                                                                                                            |
| What plans do they replace?                                                     | Non-Medicare prescription drug plans for informedRx and HSTA VB HMSA/Medco 90/10 (bundled plans)                                                                                                                                                                                                                                                                                                              |
| Will I receive new ID cards?                                                    | Yes. In mid-April<br>Please be sure to update your address if you have recently moved to ensure that receipt of these cards is not delayed.                                                                                                                                                                                                                                                                   |
| When will I receive information on how to obtain my prescription drug benefits? | Beginning in mid-April CVS Caremark will mail a Welcome Package, along with ID cards, to everyone enrolled in informedRx or HMSA/Medco drug plans.                                                                                                                                                                                                                                                            |
| Can I still use my regular pharmacy, if it isn't a CVS/Longs Pharmacy?          | Yes. You may still use your pharmacy for non-maintenance medications that you take on a short-term basis, such as antibiotics. CVS Caremark's participating pharmacy network has many pharmacies for you to choose from. Be sure to check that your regular pharmacy participates in CVS Caremark's network of pharmacies to receive the best pricing.                                                        |
| Who do I contact if I have additional questions?                                | Because we expect our phone lines to be very busy, we recommend that you do not call the EUTF at this time. Additional information will be distributed via mail and will be posted to our website at <a href="http://www.eutf.hawaii.gov">www.eutf.hawaii.gov</a> .<br><br>We will also post on our website when CVS Caremark's customer call center is open for business to receive calls from EUTF members. |

We ask that you be on the lookout for mailings regarding the change to CVS Caremark (for Non-Medicare Retirees) that will be mailed to you. We need your help to make this as smooth a transition as possible. Stay tuned; there's more to come.



## Medicare Retirees

Due to the procurement law of the State of Hawai'i, once a protest is filed all work with the awarded vendor must cease. The hearing that followed informedRx's first protest allowed work to proceed on the active and Non-Medicare plans with CVS Caremark. However, the Medicare Plan (EGWP) award was vacated and additional review by the EUTF Evaluation Committee was required. The contract was again awarded to CVS Caremark and informedRx filed a second protest. We will work to resolve this protest as quickly as possible but are not able at this time to give you an effective date.

## Other EUTF Information You Need to Know

### Medicare Part B Premium Reset

The standard Medicare Part B monthly premium changed to \$99.90, January 1, 2012. EUTF automatically reset your reimbursement to \$99.90 starting January 1, 2012 through December 31, 2012. If you have an income-related Medicare Part B premium (meaning your premium is more than \$99.90 per month), you must provide EUTF with a copy of your letter from the Social Security Administration (SSA) showing the adjusted Part B premium. If we do not receive the SSA letter, your EUTF quarterly Part B reimbursement will be calculated at \$99.90 per month. As a reminder, EUTF does not reimburse for penalties. Also note that proof of enrollment in Medicare Part B is required of eligible beneficiaries as a condition of receiving contributions and participating in the EUTF retiree benefit plans.

### Civil Union

The new civil union law became effective January 1, 2012. More information about Civil Unions is available on the Department of Health's website at <http://hawaii.gov/health/vital-records/vital-records/civilunion/index.html>

If you enter into a civil union and wish to cover your civil union partner under your EUTF or (HSTA VB) health plans, visit EUTF's website at [www.eutf.hawaii.gov](http://www.eutf.hawaii.gov) and click on "EUTF Forms" to find instructions on what to do.

*EUTF section end*

## New Website Coming Soon

The ERS will launch its new website in March or April 2012. The new design features additional categories that provide members with more information right at their fingertips. The website is also designed to be more user-friendly on mobile devices and will provide the latest news via information networks.

Some of the new features include:

- A new monthly calendar displayed on the home page to keep you up to date with ERS events at a glance
- A Twitter account so you can follow the latest news
- A member login to access your retirement information. Currently available only for Contributory Plan members, but other plans will be coming soon.

You'll be able to take a closer look in March or April 2012 at our new website address: <http://ers.ehawaii.gov/>

## Are you following ERS on Twitter?



The ERS Hawaii Twitter account is up and running. Wes Machida has been busy updating Twitter followers on legislative issues that affect ERS. He has over 50 Twitter followers, including the California Public Employees Retirement System. Come join them!

For a visual walk through of the set up process, go to:

[www.youtube.com/watch?v=YlfipDumtCo](http://www.youtube.com/watch?v=YlfipDumtCo) or to: [support.twitter.com/articles/100990-how-to-sign-up-on-twitter](https://support.twitter.com/articles/100990-how-to-sign-up-on-twitter).

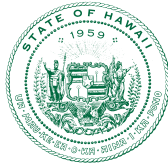


## Employees' Retirement System

of the State of Hawaii

*Working to fulfill your retirement dreams...*

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# Holomua

Retirees

1st Quarter 2012



## Ask ERS

### Answers to some frequently asked questions:

**Q:** What amounts on the 1099-R should be reported on my tax returns?

**A:** If you are filing IRS Form 1040 or 1040-A, the following boxes would be used:

- Box 1 (Gross distribution)
- Box 2a (Taxable amount)
- Box 4 (Federal income tax withheld) of the Form 1099-R.

**Q:** What if I receive more than one Form 1099-R?

**A:** If you receive more than one Form 1099-R, for each box add up the amounts from all Form 1099-Rs and report the total on the applicable line of your Form 1040. There will be a separate account number for each 1099-R.

**Q:** How do I change my federal income tax withholding?

**A:** Complete Form W-4P, Withholding Certificate for Pension or Annuity Payments, which is available on our website.

**Q:** What does the amount in Box 5, "employee contributions / Designated Roth contributions or insurance premiums" represent?

**A:** For Contributory and Hybrid Plan retirees only, Box 5 is the portion of your pension benefits that you received during the year that are non-taxable. It represents the recovery of the after-tax contributions ("costs") you made to the ERS. Please refer to IRS Publication 575, Pension and Annuity, on the recovery of your after-tax contributions. The publication is on their website at [www.irs.gov](http://www.irs.gov).

## How to Contact Us

**Monday-Friday 7:45 a.m. - 4:30 p.m.**  
(except State holidays)

**Oahu** Office, Phone: (808) 586-1735

**Kauai** Office, Phone: (808) 274-3010

**Hawaii** Office, Phone: (808) 974-4077

**Maui** Office, Phone: (808) 984-8181

**Molokai & Lanai**, toll free to Oahu:  
1-800-468-4644, ext 61735

**Continental U.S.** toll free to Oahu:  
1-888-659-0708